

Richland Community Library
Kalamazoo County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended September 30, 2008

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Richland Community Library, Michigan**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Richland Community Library, as of September 30, 2008, and for the year then ended, which collectively comprise the Library's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Richland Community Library as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison schedule, noted in table of contents, is not a required part of the basic financial statements of the Richland Community Library, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Richland Community Library has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Siegfried Crandall P.C.

November 13, 2008

BASIC FINANCIAL STATEMENTS

Richland Community Library
STATEMENT OF NET ASSETS
September 30, 2008

ASSETS

Current assets:

Cash	\$ 876,356
Receivables	<u>213</u>

Total current assets 876,569

Noncurrent assets:

Capital assets not being depreciated - land	113,815
Capital assets, net of accumulated depreciation	<u>1,701,894</u>

Total noncurrent assets 1,815,709

Total assets 2,692,278

LIABILITIES

Current liabilities:

Accounts payable	5,045
Interest payable	3,100
Bonds payable	<u>45,000</u>

Total current liabilities 53,145

Noncurrent liabilities - bonds payable 735,000

Total liabilities 788,145

NET ASSETS

Invested in capital assets, net of related debt	1,035,709
Restricted for debt service	34,472
Unrestricted	<u>833,952</u>

Total net assets \$ 1,904,133

See notes to the financial statements

Richland Community Library
STATEMENT OF ACTIVITIES
Year ended September 30, 2008

PROGRAM EXPENSES

Recreation and culture:

Library services	\$ 269,017
Depreciation	100,613
Interest	<u>38,793</u>

Total program expenses 408,423

PROGRAM REVENUES

Charges for services	10,073
Operating grants and contributions	<u>7,635</u>

Total program revenues 17,708

Net program expenses (390,715)

GENERAL REVENUES

Property taxes	366,980
State grants	4,238
District court penal fines	17,667
Interest income	<u>32,753</u>

Total general revenues 421,638

CHANGE IN NET ASSETS 30,923

NET ASSETS - BEGINNING 1,873,210

NET ASSETS - ENDING \$ 1,904,133

See notes to the financial statements

Richland Community Library
BALANCE SHEET - governmental funds
September 30, 2008

	<u>Major funds</u>		
	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
ASSETS			
Cash	\$ 838,784	\$ 37,572	\$ 876,356
Accounts receivable	<u>213</u>	<u>-</u>	<u>213</u>
Total assets	<u>\$ 838,997</u>	<u>\$ 37,572</u>	<u>\$ 876,569</u>
LIABILITIES AND FUND BALANCES			
Liabilities - payables	<u>\$ 5,045</u>	<u>\$ -</u>	<u>\$ 5,045</u>
Fund balances:			
Designated for children's programs	43,452	-	43,452
Unreserved, undesignated	<u>790,500</u>	<u>37,572</u>	<u>828,072</u>
Total fund balances	<u>833,952</u>	<u>37,572</u>	<u>871,524</u>
Total liabilities and fund balances	<u>\$ 838,997</u>	<u>\$ 37,572</u>	<u>\$ 876,569</u>

Amounts reported for *governmental activities* in the statement of net assets are different because:

Total fund balances - all governmental funds	\$ 871,524
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the governmental funds.	1,815,709
Interest payable does not require recognition in the governmental funds.	(3,100)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(780,000)</u>
Net assets of <i>governmental activities</i> (page 4)	<u>\$ 1,904,133</u>

See notes to the financial statements

Richland Community Library**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
governmental funds***Year ended September 30, 2008*

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
REVENUES			
Property taxes	\$ 279,127	\$ 87,853	\$ 366,980
State grants	4,238	-	4,238
Charges for services	9,326	-	9,326
Fines and forfeitures	17,667	-	17,667
Investment return	32,562	191	32,753
Contributions	7,635	-	7,635
Other	747	-	747
	<u>351,302</u>	<u>88,044</u>	<u>439,346</u>
Total revenues			
EXPENDITURES			
Culture and recreation	331,817	-	331,817
Capital outlay	9,039	-	9,039
Debt service:			
Principal	-	40,000	40,000
Interest	-	38,893	38,893
	<u>340,856</u>	<u>78,893</u>	<u>419,749</u>
Total expenditures			
NET CHANGE IN FUND BALANCES	10,446	9,151	19,597
FUND BALANCES - BEGINNING	<u>823,506</u>	<u>28,421</u>	<u>851,927</u>
FUND BALANCES - ENDING	<u>\$ 833,952</u>	<u>\$ 37,572</u>	<u>\$ 871,524</u>

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balances - total governmental funds	\$ 19,597
Capital assets:	
Assets acquired	71,839
Provision for depreciation	(100,613)
Long-term debt - principal repayments	40,000
Changes in other assets/liabilities - net decrease in accrued interest	<u>100</u>
Change in net assets of governmental activities (page 5)	<u>\$ 30,923</u>

See notes to the financial statements

Richland Community Library
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Richland Community Library, Michigan (the Library), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

These financial statements contain only the activity of the Library, a district library pursuant to Public Act 24 of 1989, effective April 2, 1990. The participating municipalities include the Township of Richland and the Village of Richland.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Library. The effect of all interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Library.

Richland Community Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Library.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Cash - Cash is considered to be cash on hand, demand deposits, and time deposits.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." All receivables are due within one year and are considered fully collectible.

iii) Capital assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Materials	5 - 10 years

iv) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Richland Community Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

v) *Property tax recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the District. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Library levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles. The budget document presents information by function, department, and line-item. The legal level of budgetary control adopted by the Board is the functional level. All annual appropriations lapse at the end of the fiscal year. There were no budgetary violations during the current fiscal year.

NOTE 3 - CASH:

Cash consists of the following:

Deposits with financial institutions	\$875,613
Cash on hand	<u>743</u>
Total	<u>\$876,356</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Library. Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Library's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Library will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At September 30, 2008, \$501,967 of the Library's bank balances of \$902,921 was exposed to custodial credit risk because it was uninsured.

The Library believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Richland Community Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Library for the current year was as follows:

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 113,815	\$ -	\$ -	\$ 113,815
Capital assets being depreciated:				
Buildings	1,635,800	-	-	1,635,800
Furniture, fixtures, and equipment	270,632	6,050	-	276,682
Materials	320,206	65,789	(23,940)	362,055
Subtotal	<u>2,226,638</u>	<u>71,839</u>	<u>(23,940)</u>	<u>2,274,537</u>
Less accumulated depreciation for:				
Buildings	(234,359)	(36,815)	-	(271,174)
Furniture, fixtures, and equipment	(118,662)	(30,897)	-	(149,559)
Materials	(142,949)	(32,901)	23,940	(151,910)
Subtotal	<u>(495,970)</u>	<u>(100,613)</u>	<u>23,940</u>	<u>(572,643)</u>
Total capital assets being depreciated, net	<u>1,730,668</u>	<u>(28,774)</u>	<u>-</u>	<u>1,701,894</u>
Governmental activities capital assets, net	<u>\$ 1,844,483</u>	<u>\$ (28,774)</u>	<u>\$ -</u>	<u>\$ 1,815,709</u>

NOTE 5 - BONDS PAYABLE:

At year end bonds payable represents the \$985,000 2001 unlimited tax general obligation bonds, payable in annual installments ranging from \$20,000 to \$80,000, plus interest at 4.25% to 5.00%; final payment is due September 2021.

Long-term debt activity for the year ended September 30, 2008, was as follows:

<i><u>Description</u></i>	<i><u>Beginning balance</u></i>	<i><u>Additions</u></i>	<i><u>Reductions</u></i>	<i><u>Ending balance</u></i>	<i><u>Amounts due within one year</u></i>
2001 general obligation bonds	\$ 820,000	\$ -	\$ (40,000)	\$ 780,000	\$ 45,000

Richland Community Library
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - BONDS PAYABLE (Continued):

Debt service requirements at September 30, 2008, are as follows:

<u>Year ended September 30:</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 45,000	\$ 37,190
2010	50,000	35,280
2011	50,000	33,155
2012	50,000	30,955
2013	50,000	28,705
2014 - 2018	310,000	103,915
2019 - 2021	<u>225,000</u>	<u>23,400</u>
Total	<u>\$ 780,000</u>	<u>\$ 292,600</u>

NOTE 6 - RISK MANAGEMENT:

The Library is exposed to various risks of loss due to general liability, property and casualty, and workers' compensation potential claims. The risks of loss arising from general liability up to \$1,000,000 aggregate, building contents and property damage, and workers' compensation coverage are managed through purchased commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

Richland Community Library**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended September 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 271,270	\$ 279,000	\$ 279,127	\$ 127
State grants	1,600	4,200	4,238	38
Charges for services	4,280	7,300	9,326	2,026
District court penal fines	12,000	17,450	17,667	217
Interest income	18,800	34,400	32,562	(1,838)
Contributions	2,050	7,650	7,635	(15)
Other	500	500	747	247
	<u>310,500</u>	<u>350,500</u>	<u>351,302</u>	<u>802</u>
EXPENDITURES				
Recreation and culture	320,450	339,450	331,817	7,633
Capital outlay	<u>10,000</u>	<u>11,000</u>	<u>9,039</u>	<u>1,961</u>
	<u>330,450</u>	<u>350,450</u>	<u>340,856</u>	<u>9,594</u>
NET CHANGE IN FUND BALANCES	(19,950)	50	10,446	10,396
FUND BALANCES - BEGINNING	<u>823,506</u>	<u>823,506</u>	<u>823,506</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 803,556</u>	<u>\$ 823,556</u>	<u>\$ 833,952</u>	<u>\$ 10,396</u>

November 13, 2008

**To the Board of Trustees
Richland Community Library**

We have audited the financial statements of the governmental activities and each major fund of the Richland Community Library for the year ended September 30, 2008, and have issued our report thereon dated November 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 16, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Richland Community Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Richland Community Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Library's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended September 30, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Richland Community Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Richland Community Library as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Richland Community Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Library has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Library has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Richland Community Library and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.